CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

UNITED DRUG, INC.

ANNUAL REPORT

December 31, 1942

MRB
CORP. FILE

OFFICERS

Joseph A. Galvin	*President*
Justin W. Dart	*Vice-President*
William F. Davis, Jr.	*Vice-President*
Irving W. Smead	*Treasurer*
J. R. Sammons	*Controller*
Harold E. Price	*Secretary*

DIRECTORS

Charles Francis Adams	Boston
Earl E. Anderson	New York
William R. Basset	Greenwich, Conn.
Justin W. Dart	Boston
William F. Davis, Jr.	Boston
George M. Gales	New York
Joseph A. Galvin	Boston
George C. Haigh	Bradenton, Fla.
F. Thatcher Lane	New Haven, Conn.
Charles S. Munson	New York
James L. Richards	Boston
Fred S. Rogers	Middletown, N. Y.

Transfer Agents

Guaranty Trust Company of New York, New York
State Street Trust Company, Boston

Registrars

The Chase National Bank of the City of New York, New York
The National Shawmut Bank of Boston, Boston

Counsel

Gaston, Snow, Hunt, Rice and Boyd, Boston
Root, Clark, Buckner and Ballantine, New York

March 12, 1943

To the Stockholders of United Drug, Inc.:

The annual report of your Company, herewith submitted, presents a consolidated balance sheet, consolidated statement of profit and loss and earned surplus for the year ended December 31, 1942. The assets, liabilities and operating profits of our English and South African companies are not included in the accompanying statement. Our investment in these companies is shown separately on the balance sheet.

SALES

Consolidated sales in 1942 set a new high record at $121,997,977. This compares with 1941 sales of $102,460,960, an increase of $19,537,017 or 19%.

This substantial increase in volume was accomplished in spite of the growing scarcity of merchandise sold in the retail stores and raw materials used by the various manufacturing companies. However, in the case of raw materials, your Company's Research Department thus far has been very effective in developing substitutes for those necessary materials which have been either curtailed or eliminated because of the war; and in the case of that type of finished merchandise which is no longer available for retail sale, the volume which otherwise would have been lost has been regained in part by a concentration of merchandising effort on such lines as are still available.

EARNINGS

The consolidated net income of your Company and its subsidiaries for the year amounts to $2,301,230 or $1.64 per share on the capital stock outstanding, after providing for depreciation, bond interest, loss on guaranteed leases, Federal and Canadian income and excess profits taxes, and other charges commented upon below. These figures include $131,994 expressed in U. S. dollars, of earnings of the Canadian subsidiaries.

In addition to loss from operations of guaranteed leases, earnings were charged with $1,160,546 for the cancellation or modification of certain of these leases. These payments and the expiration in 1942 and 1943 of other of these leases will substantially reduce our annual guaranteed lease loss.

Federal and Canadian income and excess-profits taxes charged to earnings in 1942 were $5,150,000 against $1,619,385 in 1941. In 1942 we filed amended excess-profits tax returns

giving effect to Sections 750 and 751 of the Revenue Act of 1940 (relating to invested capital in connection with certain exchanges and liquidations), with the result that an unused excess-profits credit in 1941 was carried over, decreasing our 1942 taxes by approximately $700,000. This benefit will be non-recurring.

As in 1941, it was again deemed advisable to provide in 1942 additional reserves of $300,000 for possible future losses and adjustments attributable to war conditions and other contingencies. In addition, a reserve of $500,000 has been provided for possible losses incident to a contemplated post-war program of reconstruction of our retail store chains, which is expected to result in greatly improved operating results. The total of these reserves at December 31, 1942, amounts to $1,465,000.

COMPARATIVE SUMMARY	1942	1941
1. We earned a consolidated net operating profit of .	$11,333,472	$6,507,424
2 To which we added investment and interest income	75,176	81,055
	$11,408,648	$6,588,479
3. From which we deducted:		
(a) Additions to General Reserves	300,000	300,000
(b) Reserve for possible losses incident to post-war reconstruction of retail store chains .	500,000	000
(c) Interest paid on funded debt	1,603,641	1,672,131
(d) Loss on operations of guaranteed leases . .	283,958	413,936
(e) Cancellation or modification of certain guaranteed leases	1,160,546	000
(f) Federal and Canadian income and excess-profits taxes	5,150,000	1,619,385
(g) Miscellaneous	109,273	55,603
4. Total non-operating deductions	$9,107,418	$4,061,055
5. Leaving a net profit of	2,301,230	2,527,424
6. Earnings per share	$1.64	$1.80

BALANCE SHEET ITEMS

Earned surplus as of December 31, 1942, amounted to $13,303,619, and includes a credit of $67,914 for discount on United Drug Company bonds purchased during the year. Surplus was credited with $52,063 covering unrealized exchange adjustments in the conversion of the accounts of Canadian subsidiaries to U. S. dollars.

Working capital amounted to $29,947,605, an increase of $1,563,320. Cash, marketable securities, together with U. S. Government Treasury Notes of $2,000,000, amounted to

$14,748,773, an increase of $6,576,930. Inventories were $24,133,877, an increase of $52,238.

Bonds of United Drug Company of $2,001,000, par value, were purchased during the year, making a total in the treasury at December 31, 1942, of $2,751,000.

Since January 1, 1943, we have purchased an additional amount of U. S. Government Treasury Notes in the sum of $3,000,000 and in addition, $250,000 par value of United Drug Company bonds.

WAR PRODUCTION

During the year, the principal subsidiaries of your Company have been actively participating in the war effort by manufacturing vital materials for the war agencies and by supplying the civilian population with drugs and medicines necessary to maintain a high degree of public health.

More recently, an official communication has been received advising that two of the subsidiaries of your Company, The Seamless Rubber Company, of New Haven, Connecticut, and The Absorbent Cotton Company of America, of Valley Park, Missouri, are to be awarded the Army and Navy "E" for excellence in war production. I am sure that stockholders will share with the management and employees a real sense of achievement in this recognition of accomplishment.

Contracts for war materials supplied in 1942 have been renegotiated with Government officials pursuant to the War Profits Control Act, with the result that no adjustments for excessive profits are anticipated.

DIVIDENDS

No dividends were declared on the capital stock of the Company during 1942. Your directors are of the opinion that no dividend action should be taken at this time in view of the business uncertainties created by the war and the need for conserving funds for maturing funded debt, working capital, and necessary post-war reconstruction.

* * * * * * * * * * *

On behalf of the Board of Directors, I am happy to record their sincere appreciation for the loyal and efficient services rendered by our employees; for the support given our Company by our thousands of customers, and for the continued confidence of our stockholders.

Respectfully submitted,

Joseph A. Galvin,
President

UNITED D

AND SUBSIDIAR

CONSOLIDATED BALANCE SH

(WITH COMPARATIVE FIGURES

ASSETS	December 31, 1942	1941
CURRENT ASSETS:		
Cash in banks and on hand	$12,099,820	$ 7,514,315
United States Treasury Notes, tax series (*cost and face amount*)	2,000,000	...
Marketable securities and call loans (*value based on market quotations, approximately $684,000 in 1942 and $668,000 in 1941*)	648,953	657,528
Customers' accounts and notes receivable (*including $916,352 in 1942 owing from United States Government departments*), less reserves for doubtful balances, discounts, etc. of $564,314 in 1942 and $539,697 in 1941	5,088,743	5,695,399
Miscellaneous accounts and notes receivable	434,042	298,416
Inventories of merchandise, partly-finished stocks, materials and supplies (*at cost or market whichever lower*) — Note 2	24,133,877	24,081,639
TOTAL CURRENT ASSETS	$44,405,435	$38,247,297
INVESTMENTS AND ADVANCES, ETC.:		
Customers' non-current notes receivable and advances, less reserves	$ 121,968	$ 225,218
Miscellaneous advances, notes, claims and deposits, less reserves (*including $57,708 in 1942 and $75,195 in 1941 owing from employees, and including $121,889 in 1942 and $130,009 in 1941 owing from an affiliated company*)	324,852	472,117
Investments in and advances to English and South African subsidiaries, wholly owned (*book value of underlying net assets expressed in U. S. dollars, $466,589 in 1942 and $505,569 in 1941 — Note 1*)	330,007	400,161
Miscellaneous investments, at or below cost, less reserves (*including investment of doubtful value in an affiliated company, carried, as in prior years, at a nominal amount of $1*)	201,566	207,594
	$ 978,393	$ 1,305,090
PROPERTY ACCOUNTS — at cost, written down amounts, or appraisal valuations (*including store fixtures and improvements of retail companies at appraisal valuations determined in 1933, as approved by the directors, plus subsequent additions at cost*):		
Land, buildings and building fixtures	$ 9,101,332	$ 9,178,463
Machinery and equipment, etc.	8,608,360	8,710,260
Store fixtures and improvements, etc.	12,068,272	11,458,011
	$29,777,964	$29,346,734
Less — Reserves for depreciation	15,173,535	14,454,182
	$14,604,429	$14,892,552
DEFERRED CHARGES:		
Prepaid insurance, taxes, rent, etc. and advertising supplies	$ 943,334	$ 656,663
GOODWILL, TRADE-MARKS, ETC.	$ 6,300,000	$ 6,300,000
	$67,231,591	$61,401,602

(Reference is made to the accompan

RUG, INC.

Y COMPANIES

HEET — DECEMBER 31, 1942

AS AT DECEMBER 31, 1941)

LIABILITIES	December 31, 1942	1941
CURRENT LIABILITIES:		
Accounts payable, accrued expenses, etc.	$ 8,678,738	$ 7,782,153
Accrued interest on funded debt	444,777	473,958
Reserves for estimated Federal and Canadian income and excess profits taxes — Note 3	5,334,315	1,606,901
TOTAL CURRENT LIABILITIES	$14,457,830	$ 9,863,012
REAL ESTATE PURCHASE OBLIGATIONS, MATURING AFTER ONE YEAR	$ 210,221	$ 217,542
FUNDED DEBT:		
Twenty-five year 5% debenture bonds of United Drug Company, due March 15, 1953:		
Authorized and issued, $40,000,000, less amounts retired	$33,250,000	$34,000,000
Less — In treasury, held for retirement (*including $750,000 principal amount in 1942 and 1941 available to meet the annual sinking fund payments due March 15, 1943 and March 15, 1942, respectively*)	2,751,000	1,500,000
	$30,499,000	$32,500,000
RESERVES:		
For maintenance of store fixtures and improvements	$ 189,963	$ 182,000
Reserves for possible losses incident to contemplated post-war reconstruction of retail store chains	500,000	...
General reserves for other possible future losses and adjustments attributable to war conditions and other contingencies (*increased in 1942 by $300,000 charged to profit and loss*)	965,000	665,000
Miscellaneous reserves and deferred income	44,316	29,994
	$ 1,699,279	$ 876,994
CAPITAL STOCK AND SURPLUS:		
Capital stock:		
Authorized and issued — 1,400,560 shares, par value $5 each	$ 7,002,800	$ 7,002,800
Capital surplus	588,319	588,319
Earned surplus since September 1, 1933 (*representing principally surplus earnings of subsidiary companies since that date which have not been distributed to the parent company*) — per accompanying statement	13,303,619	10,882,412
	$20,894,738	$18,473,531
Less — Cost of 48,976 shares of capital stock of United Drug, Inc. acquired and held by subsidiary company for corporate purposes	529,477	529,477
	$20,365,261	$17,944,054
	$67,231,591	$61,401,602

ying notes to financial statements)

UNITED DRUG, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1942

Sales, less returns, allowances and discounts			$121,997,977
Cost of sales, selling, general and administrative expenses (*including depreciation of* $1,339,775)			110,664,505
Profit from operations			$ 11,333,472
Other income:			
Income from investments		$ 26,814	
Interest on notes receivable, etc.		35,904	
Miscellaneous (net)		12,458	75,176
			$ 11,408,648
Other charges:			
Interest on funded debt		$ 1,603,641	
Other interest		14,557	
Loss from operation of guaranteed leases		283,958	
Payments made in consideration of cancellation or modification of certain guaranteed leases		1,160,546	
Plant moving and rearrangement expenses		94,716	
Provision for estimated Federal and Canadian taxes on income — Note 3:			
Federal normal income taxes and surtaxes	$1,625,000		
Federal excess profits taxes (less debt retirement credit of $375,000)	3,375,000		
Canadian income and excess profits taxes	150,000	5,150,000	
Provision for possible losses incident to contemplated post-war reconstruction of retail store chains		500,000	
Addition to general reserves for other possible future losses and adjustments attributable to war conditions and other contingencies		300,000	9,107,418
Net profit for the year carried to surplus			$ 2,301,230
Consolidated earned surplus, balance December 31, 1941		$10,882,412	
Add:			
Discount on purchase during the year of United Drug Company bonds		67,914	
Decrease in unrealized exchange losses resulting from conversion of the accounts of the consolidated Canadian subsidiaries into U. S. dollars		52,063	11,002,389
Consolidated earned surplus, balance December 31, 1942, carried to balance sheet			$ 13,303,619

(Reference is made to the accompanying notes to financial statements)

UNITED DRUG, INC.
AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS — DECEMBER 31, 1942

(1) BASIS OF CONSOLIDATION, FOREIGN ASSETS, ETC.

The accompanying consolidated balance sheet and statement of profit and loss and earned surplus include the accounts of the parent company's domestic and Canadian subsidiaries. The English and South African subsidiaries have been excluded from consolidation and the investment therein is shown in one amount in the consolidated balance sheet.

The following is a condensed statement of foreign assets and liabilities at December 31, 1942, expressed in U. S. dollars, of the Canadian subsidiaries combined and the English and South African subsidiaries combined:

	Canadian subsidiaries combined (*assets and liabilities included in the consolidated balance sheet*)	English and South African subsidiaries combined (*carried as an investment in the consolidated balance sheet*)
Current assets (*including $693,410 of cash, marketable securities and call loans of Canadian subsidiaries*)	$2,223,489	$791,738
Current and other liabilities	426,884	363,877
Net	$1,796,605	$427,861
Fixed properties and other assets	819,020	38,728
Total (*excess of assets over liabilities*)	$2,615,625	$466,589

In addition to the above foreign assets and liabilities, the marketable securities at December 31, 1942, shown in the accompanying consolidated balance sheet, include $69,983 of English securities held by a domestic subsidiary.

The consolidated net profit for the year 1942 includes $131,994, expressed in U. S. dollars, of undistributed earnings of the Canadian subsidiaries. The consolidated earned surplus at the end of the year includes $983,176 of accumulated undistributed earnings of the Canadian subsidiaries which are subject to such restrictions as to distribution as may be imposed by exchange regulatory authorities. Earnings of the unconsolidated English and South African subsidiaries for the year, amounting to approximately $30,000 in U. S. dollars, have not been reflected in the consolidated statement of profit and loss, but the statement includes $1,893 of dividends from the English subsidiary which were declared in foreign currency in 1940 and 1941 and were converted into U. S. dollars in 1942.

(2) INVENTORIES

The inventories of the consolidated companies have been priced on the basis of cost or market whichever lower, after eliminating estimated intercompany profits included therein. "Cost" represents current actual cost, or current average purchase or manufacturing cost computed on the "first in, first out" method.

(3) RESERVES FOR ESTIMATED FEDERAL AND CANADIAN INCOME AND EXCESS PROFITS TAXES

The companies' liabilities for Federal and Canadian income and excess profits taxes are subject to review and final determination by the respective taxing authorities. The reserves provided therefor are considered to be reasonable and conservative in the light of the governing statutes, but the application to this company and its domestic subsidiaries of some of the provisions of the Federal tax laws is uncertain and interpretative regulations of the Treasury Department covering all changes incorporated in The Revenue Act of 1942 have not yet been issued.

PRICE, WATERHOUSE & CO.

75 FEDERAL STREET

BOSTON

March 8, 1943.

To the Board of Directors
of United Drug, Inc.:

We have examined the consolidated balance sheet of United Drug, Inc. and its subsidiary companies as of December 31, 1942 and the related consolidated statement of profit and loss and earned surplus for the year ending on that date. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, except that it was found to be impracticable to obtain independent confirmations of receivables from United States Government departments, with respect to which we have satisfied ourselves by means of other auditing procedures. The examination included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary, including the verification of the cash in banks through certificates obtained from the depositaries, inspection or confirmation of the securities, observations and test counts of the inventories during the year and test confirmations of the receivables by correspondence with debtors other than United States Government departments.

In our opinion, the accompanying consolidated balance sheet and related consolidated statement of profit and loss and earned surplus, with the accompanying notes to financial statements, present fairly the position of United Drug, Inc. and its subsidiary companies at December 31, 1942 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent, in all material respects, with that of the preceding year.

PRICE, WATERHOUSE & CO.